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STATE TRADING ORGANIZATIONS: THE AFRICAN EXPERIENCE

INTRODUCTION

"We are dealing with very serious problems, on which the lives of our people and the future of our nations depend. We must approach these questions with fresh minds, without being restricted by orthodoxies of left or right or centre. Where nothing will serve except radical solutions, we must not be afraid of them. At the same time, we have to be very realistic. Africa is being changed by events beyond our control and we want to get control of that process of change so that it works for our benefit - or at least does us the minimum harm. And we have limited resources of time, of manoeuvre, and of wealth. 1/

This statement by the former President of Tanzania, Julius Nyerere, eloquently summarizes Africa's situation with respect to the crisis. It invites African decision makers to act in order to control the destinies of their countries. It reactivates the debate on the assessment of resources and their optimum use within a context of scarcity and crisis. The role of the State in economic development is central to this debate. State-trading organizations are the main issue of the debate.

In view of the gravity of the crisis, the scales seem to swing in favour of those who advocate the disengagement of States from all trading activities and the privatization of existing public enterprises. What is disturbing about the wave of neo-liberalism and the criticism levelled against public enterprises by the advocates of privatization is that such criticism often stems from hasty analyses based on confusion (deliberate or well-meaning) between the concept of public enterprises as such and all the negative systems and practices that have characterized the management of African public enterprises over the past 25 years. Should African public enterprises be relieved of all the red tape which hamper their smooth operation so that the State can use them as a means of controlling trade and the economy through national structures? Should public enterprises be declared bankrupt so that the entire commercial sector could be left in private hands? What would be the consequences of hasty privatization in countries where there is almost no accumulation of indigenous capital? The author of this study feels that the protection and renovation of African public enterprises could help to save resources and permit the judicious use of the management experience accumulated (notwithstanding mistakes) by those who have directed such enterprises over the past few years. It is hard to admit that, in some cases, 25 years of experience have yielded absolutely nothing and do not offer any basis for innovation. The aim of this paper is, therefore, to try to widen the debate on State-trading organizations and to define the conditions under which they can play a positive role in developing the trade of African countries and protecting national interests. To do that, the author deals with the following questions:

(a) The origin of African State trading organizations;

(b) The characteristics and functions of African State trading organizations;

(c) The role and justification of State trading organizations in Africa;

1/ Opening Statement of the OAU Summit, Addis Ababa, 1985.

(d) The organizational structures and operation of African State trading organizations;

(e) African State trading organizations and international co-operation;

(f) How intra-African State trading organizations can effectively contribute to the development of trade and co-operation.

CHAPTER I

ORIGIN, OBJECTIVES AND CHARACTERISTICS
OF AFRICAN STATE TRADING ORGANIZATIONS
(STOs)

A. Justification of African STOs

When they became independent, most African States inherited an economic situation characterized by a lack of indigenously accumulated capital and a negative balance of private foreign capital flows. There were not enough African businessmen who had sufficient experience and the resources required to alleviate the effects of the exodus of private foreign funds. Consequently, African States were faced with the dilemma of directly controlling production and marketing activities or ignoring the vacuum thus created and running the risk of having their economies disorganized in the short term or being controlled in the medium term by foreigners. Since the primary duty of any State is to ensure that economic activities are continuous African Governments had no other choice but to establish the appropriate means of controlling various operations of the trading sector. The appearance of the State Trading Organization (STO) is, therefore, not an ideological choice but rather a historical necessity which was accepted even by those who openly advocated economic liberalism as a means of development.

African States also shared the general desire of Governments concerned with protecting national interests in certain strategic sectors of their economies. State marketing organizations were very quickly set up everywhere in Africa to control commercial operations in the agricultural and mining sectors or the distribution of imported essential commodities. 2/

The use of the State enterprise as a means of controlling selected economic sectors is, as J.K. Galbraith stated, a common phenomenon even in avowedly capitalist States such as the United States of America, Japan, Taiwan and the Republic of Korea. 3/

It should be said, however, that the establishment of State organizations in Africa has not always been carried out in confusion. The euphoria of independence and nationalist fervour did not prevent most African governments from defining first the sectors of intervention of the State. In some countries, three areas of State intervention in the economy may be distinguished:

(a) An area exclusively reserved for the State where it can, at will, create enterprises either alone or in association with local or foreign capital;

2/ The list of African STOs in the annex is quite eloquent. See in this respect W.A. Robson, Nationalized Industry and Public Ownership, Allen and Unwin, London 1960.

3/ J.K. Galbraith, BBC Reith lecture series 1966.

(b) An area reserved for national investors with the aim of encouraging their integration into the distribution networks of the national economy;

(c) A free area in which foreign investors may operate.

State Trading Organizations have been instrumental in protecting the marketing channels of newly independent African States. They survived this protectionist phase for the following reasons:

(a) Some African countries opted for a socialist ideology and made the control of marketing channels a deliberate policy and the mainstay of their economy. Where such ideological orientation was not decisive, nationalism achieved the same result by necessity in view of the absence of private indigenous forces capable of controlling the economy;

(b) Most African countries inherited trading channels and infrastructures that are more geared towards satisfying the requirements of the former colonial powers. African trade can only be liberated by diversifying export markets and sources of imports; unfortunately, such diversification calls for the creation of new marketing channels that transnational corporations and trading companies of the former colonial powers are not ready to set up. Only the State can provide the structures necessary for promoting new distribution channels. The implementation of indigenous development policies strengthens the role of the State in directly controlling economic operations;

(c) There are often clashes between the economic objectives of African countries and those of foreign firms and transnational corporations and the maintenance of the colonial status quo is not compatible with development because such firms channel growth towards focal points outside the countries where they are established. In the absence of national entrepreneurs only the State sector can remedy this situation;

(d) African economic operators in the private sector find it difficult to survive competition from foreign firms. The banking network, which is often in the hands of transnational banks, distribution of costs and other conditions of supply are unfavourable to them. It should be noted that the regulations laid down by governments have not been able to improve this situation. If the State does not want to surrender the independence of the country it has to directly control operations.

The State must have a say in the planning of the economy if it wants to achieve its objectives. Trade is too important a sector to be made an exception to this rule, especially in African countries that are developing countries.

B. Characteristics of African State Trading Organizations (STOs)

1. Definitions: STOs are a sub-group of State enterprises. If they are defined as trading organizations there would be no difference between them and State production organizations because the latter also have a trading function. It is the exclusively marketing function which makes STOs special. STOs are exclusively trading organizations. They are either external trading companies or distribution companies that handle domestic trade. The definition of STOs as exclusively external

trading organizations given by some authors is not satisfactory to the author of this paper 4/ there is no clear demarcation line in African countries between importing enterprises and distribution companies and not only is there often an extension of the activities of the former by the latter but in African border areas distribution companies conduct, inside of themselves trading operations with the neighbouring country or countries. The only criterion which should be considered seems therefore to be the overwhelming presence of the State in the enterprise. If this was accepted, mixed corporations where the State is the main shareholder should also be included in this definition.

2. Types of African STOs

African STOs include agricultural marketing boards, import-export companies, national trading companies, government trading agencies or mixed corporations in the form of co-operative agencies etc.

(a) Agricultural produce marketing boards

This is the oldest form of African STO. Such boards are often a carry over from the colonial period and have served as direct intervention tools of the State in collecting and marketing major agricultural export produce. All African countries have several of these STOs which handle one or several products such as coffee, cocoa, tea and cotton.

Apart from collecting, transporting and marketing such raw materials, these marketing boards also act often as intermediaries in distributing agricultural inputs such as machines, fertilizers, fungicides and seeds; they are also responsible for storing grains and assist the State in fixing producer prices and preparing marketing policies. They invest downstream in processing industries such as oil mills, flour mills and roasting industries.

The main activity of such boards is export but they could also have a local distribution (foodstuffs marketing boards) and collection network. The current trend is to replace this network by farmers' co-operatives and or private agents who are paid commissions which exempt them from the traditional duties of sizing, packing, weighing and storage.

Such boards are nearly always financed by development banks and, when they import, their supplier credits are guaranteed by the State. Except in rare cases (Senegal, Nigeria) the current wave of privatization does not affect such boards. Many of these companies, however, have real management problems and add very considerably to the external indebtedness of African countries. They are typical examples of institutions that mix the objectives of trading companies with those of political and social institutions: this leads to overstaffing, red tape, the establishment of many decision-making bodies within and outside the board, the embezzlement of public property and nepotism in the appointment of the managerial staff of the enterprise.

4/ See Praxy Fernandes in State Trading and Development, ICPE, 1982

(b) International trading companies

This category covers all the other state trading organizations dealing with imports and/or exports of any other goods outside strategic raw materials. 5/

There are export-import enterprises in several African countries under various names and they deal with quite a wide range of products (particularly imported products) from foodstuffs, textiles, clothing, chemicals to spare parts, capital goods and building materials (the range of products imported by the Ethiopian Import-Export Corporation covers more than 50 types of articles 40 of which are monopolies). Such enterprises are of relatively recent creation and they were generally established to meet a growing demand that existing trading corporations were no longer able to meet either because they had not been able to anticipate such demand or because projected investment had been inadequate. It is, therefore, not correct to say that the State in this particular case established the enterprise in order to compete with the private sector. The turnover of such companies could sometimes be over 100 million United States dollars and the import monopolies that they are granted covered many products. They often act as wholesale importers responsible for supplying private agents or state distribution corporations. However in some countries, the same corporation is responsible for both imports and local retail distribution which is the case of OFNACOM in the Congo and SOTEX in Mali. The export function of such corporations is limited by the restricted range of non-traditional export products of African countries.

In some countries, the organizational structures of such import-export corporations become relatively highly sophisticated with enterprises and departments specializing in specific product lines.

Some countries such as Ghana (Ghana National Trading Company, GNTC) have another type of import distribution corporation. Such corporations are often set up to streamline marketing channels and consolidate demands in order to strengthen the competitiveness of indigenous traders who are its local distributors. They sometimes act as middleman between international import-export trading corporations and redistributors in which case they act as wholesalers dealing in smaller quantities at the national level (this is what happens in Tanzania).

The Zambian and Tanzanian firms INDECO, MIBCO and NIT are rather special cases they are more holding companies than trading companies in that they merely control several specialized trading corporations such as the Consumer Buying Corporation of Zambia, INDECO WATSON, Mwaisumi Stores, the National Drug Company, the National Import-Export Corporation, Zambezi Trading Company and Zok. Similarly, the Zambia Industrial and Mining Corporation (ZIMCO) controls, among others, the National Import and Export Corporation (NIEC) which in turn has subsidiaries.

5/ Major agricultural products which generally cover the bulk of exports of the countries (more than 50 per cent) or imported essential foodstuffs, for example rice in Senegal.

(c) State supply agencies

In French-speaking African countries, such agencies are called 'Direction du Matériel' and in English-speaking countries, Departmental Trading Companies. Their role is to supply ministry departments. They purchase equipment strictly for the needs of government departments either directly or through the above-mentioned corporations.

3. Analysis of the operational structures, policies and objectives of the STOs of some African countries

(a) General objectives of STOs

It is very difficult to define the real objectives of African public organizations. Indeed, there is a certain duality in the definition of the objectives of African STOs. There are the stated objectives and unstated objectives, growth objectives and development objectives. The stated objectives are those that are clearly stipulated in the specifications or charter of the enterprise. Such objectives are offset by those that the State assigns implicitly to the public enterprise depending on circumstances. Growth objectives are quantitative parameters that have to take into account the commercial nature of the business and its ability to generate resources in the same manner as private firms. Development objectives are rather qualitative. STOs have to reconcile objectives of commercial efficiency with social objectives and this is where most of their problems and criticisms against them stem from and makes it difficult to assess their actual performance. While STOs are required to make profits they are also required to provide jobs at levels that are sometimes incompatible with their profitability and to fix prices that have no reasonable economic basis whatsoever.

A set of explicit objectives generally accepted as being those of African STOs has evolved from this hotchpotch of theories. 6/

African STOs should:

(a) Promote the self-reliance of the country in strategic sectors and sub-sectors;

(b) Provide the necessary infrastructure facilities for a country's balanced and diversified economic structure;

(c) Reduce regional disparities in development;

(d) Allocate and manage a country's resources efficiently;

6/ See in this respect J.H. Chileshe, Third World Countries and Development Options: Zambia, Vikas, 1986.

See also A synopsis of State Trading Organizations (STOs) activities in Africa E/ECA/TFRTWC/WP.1.

(e) Prevent the concentration of economic power in the hands of a few individuals;

(f) Help to create jobs and boost productivity;

(g) Reinforce social control on trade and industry in order to ensure equitable distribution of goods and services between the urban and rural areas.

Translated into explicit commercial terms, such objectives require STOs to promote exports and control the marketing of strategic products, streamline imports and bring down their costs while guaranteeing regular supplies, streamline current marketing channels and create channels more likely to meet the needs of the people in the urban and rural areas, increase demand by generating jobs, make profits and reinvest them usefully. Let us now see how these general objectives are reflected in the objectives, trade policies and operational policies of STOs of various African countries.

(b) Analysis of the tasks, policies and operational structures of African STOs

In French-speaking African countries in general and in Senegal, Mali, Benin and the Congo in particular, there are two types of STOs:

(a) STOs under the total control of the state which is the sole shareholder (OFNACOM in the Congo, OMC in Burundi etc.);

(b) Mixed corporations in which the bulk of shares is held by the state and the rest by private national or foreign economic operators (SONADIS in Senegal, SONITAN in the Niger, COPRO-Niger etc.).

The tasks assigned to these two types of corporations are generally the same be they state monopolies or corporations with several shareholders. They have to:

(a) Supply goods to cover the requirements of the country in line with the priorities established by the state;

(b) Improve the trade balance;

(c) Help to halt inflation by acting as a price regulatory mechanism;

(d) Control the bulk of exports and streamline imports.

Agricultural produce collection and marketing operations including exports thereof are generally carried out by boards, state monopolies whose activities are supported by co-operatives as in Senegal or private sector middlemen as in the case of Mali.

The marketing of non-traditional export products and the import of manufactured and semi-manufactured goods and current consumer goods are often the

responsibility of mixed import-export corporations but are sometimes under the total control of the state (OFNACOM Congo). Such corporations either have integrated marketing channels or depend on authorized private redistributors (SONADIS Senegal).

Nigeria

Apart from the State marketing boards that export oil and certain raw materials such as cocoa, groundnuts, cotton, palm oil and palm-kernel oil, rubber, grains, and tubers, Nigeria has only one well known import-export STO, the Nigeria National Supply Company Limited (NNSC).

The only Nigerian Government State monopoly is the petroleum sector; other trading activities are left to the private sector. The NNSC acts as a government import agency responsible for covering the requirements of the Nigerian State and its departments; its imports of foodstuffs and other essential commodities are relatively small.

Ghana

There are three main STOs in Ghana, the Ghana National Trading Corporation, the Ghana National Procurement Agency and the Ghana Supply Commission. Ghana also has agricultural produce marketing boards including the Cocoa Marketing Board.

The role assigned to Ghanaian STOs is to bring in the bulk of the country's imports and to serve as Ghana's sole representatives in bilateral transactions between Ghana and the Socialist countries of Eastern Europe and between Ghana and some African countries.

The Ghana Supply Commission is a government import agency responsible for supplying the State's needs in stationery, office machines and equipment, printed matter and so on. It charges a commission of 1 to 3 per cent to cover the cost of its activities.

The Ghana National Procurement Agency has the monopoly for importing essential commodities such as wheat, rice, sugar, meat, fertilizers, iron bars, cotton and paper in bulk. For economic reasons, that monopoly was reduced in 1977 to a mere control of the activities of trading corporations dealing in such products.

The Ghana National Trading Corporation imports and distributes a varied range of merchandise from machines and other equipment to electric appliances and textiles, pharmaceuticals, drinks, trucks and spare parts.

The Ghana Export Company Limited deals with non-traditional exports.

Kenya

The Kenya National Trading Corporation (KNTC) was established in 1966 to take over the wholesale and retail trade from foreign operators. The task assigned to KNTC was to distribute essential consumer goods, market Kenyan manufactured products and act as a partner for the socialist countries with which Kenya has signed bilateral agreements.

Apart from its "indigenization" mission, the KNTC has been asigned the following objectives:

(a) Reducing the number of middlemen between manufacturers and consumers by streamlining distribution;

(b) Helping to reduce consumer prices in order to benefit low-income consumers in particular;

(c) Ensuring, at the discretion of the Government, control of trade in strategic products;

(d) Exporting or promoting the export of Kenyan products that are not traditionally exported;

(e) Undertaking inport activities and acting as an import regulatory mechanism at the discretion of the Government;

(f) Establishing and promoting trade with countries that have signed agreements with Kenya;

(g) Promoting trade with other African countries.

The KNTC gives preference to Kenyan products when they are in competition with products to be imported from abroad.

Tanzania

The Board of Internal Trade (BIT) is a sort of holding company which controls six import subsidiaries and 22 regional distribution companies. The importing branches are:

(a) The Agricultural and Industrial Supplies Company;

(b) The Building Hardware and Electrical Supplies Company;

(c) The Domestic Appliances and Bicycle Company;

(d) The General Food Company;

(e) The Household Supplies Company;

(f) The National Pharmaceutical Company.

The missions assigned to the BIT and other State corporations were stipulated in the Arusha Declaration of 1967. Their tasks are to:

(a) Help to establish a more egalitarian society by ensuring that the spinoffs from development reach the whole country;

(b) Help to implement 'Ujamaa' for the development of the rural areas;

(c) Help to mobilize national resources in order to ensure that the Tanzanian economy is self-reliant,

(d) Help to transform economic and social structures through a rapid expansion in production capacities,

(e) Promote economic co-operation with other African countries.

The BIT monitors the activities of its six import affiliates and orients such activities towards the most competitive sources of supply or towards suppliers whose countries have signed preferential trade agreements with Tanzania. The BIT also gives priority to local producers. It ensures the integration of external trade channels with domestic trade channels through the links established by its import branches and regional distribution corporations responsible for distributing imported products in the various regions of the country.

A considerable portion of Tanzania's trade with developing countries and the socialist countries of Eastern Europe and China is carried out by the BIT.

The foreign exchange crisis that has affected Tanzania over the past few years considerably contributed to the difficulties of the BIT.

Zambia

The most important STO is the National Import-Export Corporation which, as it has been pointed out earlier on, is an outgrowth of the Zambian Industrial and Mining Corporation (ZIMCO). The NIEC controls importing firms and local distribution corporations. It also acts as a State importing agency for the specific requirements of Government departments. It also serves as a consumer price regulatory mechanism by giving the Zambian State appropriate pointers regarding pricing.

Ethiopia

The Ethiopian Import-Export Corporation (ETIMEX) was created recently in 1975. In 10 years, its turnover increased from US$ 5 million to more than US$ 100 million. The activities of ETIMEX are for the moment focused exclusively on the import of a wide range of products from industrial raw materials to current consumer products such as foodstuffs and textiles, machines and equipment, building materials and chemicals. Although ETIMEX is under the Ministry of External Trade, it has autonomy in the management of its operations. Structurally, it is spilit into specialized corporations according to products. ETIMEX coveres, at the momenet, nearly 80 per cent of the country's imports. The redistribution of imported merchandize by the corporation is carried out by the Ethiopian Domestic Distribution Corporation (EDDC) which is the STO responsible for domestic trade. ETIMEX also supplies private sector operators.

Ethiopia has specialized corporations that handle the exports of specific products. coffee is exported by the Coffee Marketing Board, hides and skins by the Hides and Skins Corporation, oil by the Oil Seeds and Pulses Corporation, cured leather and shoes by the Leather and Shoes Corporation and so on.

The medium-term transfer of certain export activities to ETIMEX would appear to indicate an expansion in its activities. It already co-ordinates import and export trade resulting from bilateral agreements signed by Ethiopia with other countries including barter trade agreements.

Egypt

Egypt has nearly three decades of experience in managing STOs. The peculiarity of Egyptian STOs is that they are the only STOs in Africa which have their own international networks. They were quick to grasp the importance of trade among developing countries. El Nasr Import and Export Company has branches in a number of African countries namely, Senegal, Mauritania, Mali, Burkina Faso, Sierra Leone, Liberia, Ghana, Togo Benin, Kenya, Uganda, Zambia, Zaire, the Congo, the Central African Republic, Nigeria, Niger, Chad, the Sudan, Cameroon and Tanzania. El Nasr is also established in France, Iran, Kuwait, Jordan, Syria and the Lebanon.

El Nasr has a turnover of nearly US$500 million. It exports textiles and cotton yarn, crude petroleum and petroleum products, rice, live animals, metallurgical products and it imports sugar, food oils, cattle, cement, maize etc.

Misr Import and Export is turned more towards Asian markets and is established in India, Bangladesh, Sri Lanka where it is represented by the Egyptian Trade Centre. In Africa, it has contacts with Somalia and Ethiopia where it is implementing a barter trade agreement with ETIMEX. Misr Import and Export exports quite a considerable range of products including chemicals, pharmaceuticals and medical equipment, foodstuffs, metals, weaving equipment, furniture and handicrafts. It imports machines and equipment, foodstuffs such as flour, maize, sugar, animal fats, raw and refined fats, tea, coffee, spices, grated coconut, various chemicals, metals and yarn, jute bags and propylene.

With a few exceptions, the structures and objectives of the STOs of other African countries are quite similar to those that are the subject of this analysis. The structures and objectives of STOs obviously have an impact on their management and efficiency. The analysis of the impact of the structures and objectives of African STOs on their commercial management is one of the focal points of this study.

CHAPTER II

MANAGEMENT OF AFRICAN STATE TRADING ORGANIZATIONS

Management is the art of guiding an organization or enterprise and ensuring that it is constantly able to seize opportunities offered by the business environment and to overcome problems arising from the same environment. This assumes that the organization or enterprise has the appropriate means which, when used optimally, could provide adequate answers to the problems posed by the forces in play in the environment. These conditions remain relevant regardless of the form of the organization and its place of operations and regardless of whether it is a private or State corporation. African State Trading Organizations (STOs) are also therefore subject to this rule. Regulation or guidance is, however, less easy in the case of a public corporation because the weight of the State with all its political, administrative and social implications is added to the commercial environment. The inadequacy of the human, material and financial resources available make it even more difficult to properly manage African public enterprises in particular and even more so in the case of African STOs. The current debate on the State sector in Africa concerns management problems and the efficiency of STOs. Poor management is deliberately put forward as the main, if not the sole reason, for the failure of African STOs.

The aim of any form of management is the efficient utilization of available resources to achieve the objectives of the enterprise. This, of course, assumes that adequate resources are provided to carry out the objectives of the enterprise and that the managers of such enterprises are given appropriate power. What does the situation look like as far as the management of African STOs is concerned?

A. Defining the Objectives of African STOs 7/

Defining the objectives of an enterprise is a crucial management decision. On this definition will depend that organizational structures and the amount of resources required (human, financial and material resources). It could be said that those who defined the initial objectives of the enterprise are considerably responsible for its success or failure although praise or blame is always laid on the shoulders of the managers of the enterprise.

The objectives assigned to African STOs are often badly defined or are not relevant to commerical organizations. The primary objective of a commercial enterprise is that it should make profit and in establishing STOs, all the African countries of course mentioned that objective. While in a normal situation the profit-making objective is a crucial one for the trading company, in the case of

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7/ For a listing of the objectives of African STOs see Chapter I (B3).

African STOs, this priority seems to be divided between profit, social objectives and political objectives. Social and political objectives even take priority over the profitmaking objective in the course of the constant redefinition of objectives carried out by the authroities for reasons of political as well as economic expediency. This is in contradiction with correct trade corporation management which precisely requires that social and perhaps political objectives should depend on the profitmaking objective and that social objectives should flow from productivity and not the reverse. To this should be added the fact that the various objectives defined for the same enterprise are incompatible. The STOs of developing countries should, as it has been explained, certainly be asked to act as direct control mechanisms of the trade sector and tools for development. However, enterprises cannot be expected to be profitable when they are required, for instance, to employ twice as many workers as they actually needed or have the capacity to absorb which was the case of ONCAD in Senegal. The excuse of stopping inflation and guaranteeing the purchasing power of the people could not be used either to request a trading company to fix prices below its actual costs and expect it at the same time to make profits and not to benefit from State subsidies (see the case of the KMTC in Kenya and BIT in Tanzania which have been requested not to pass on any rises in the prices of goods to consumers even if such goods have to be sold below their cost price).

There is, therefore, an obvious lack of discernment in how the order of priorities of African STO objectives are defined, a lack of consistancy in defined objectives and incompatibility between objectives. Managers of STOs even wonder if their enterprises have real growth objectives. The state of affairs is the result of the incompetence of those responsible for defining the objectives. They are politicians with no management experience whatsoever and unaware of the requirements of a trading concern. Such men are rarely managers. In o[illegible] opinion, the objectives of STOs should be defined at two levels:

(a) The State authorities should define the terms of reference, i.e. broad guidelines in the light of economic options and the development plan;

(b) The managers and corporation directors should define the objectives of the corporation as a commercial entity. This group should decide on the proper balance in resources and jobs and the growth and profitmaking objectives.

B. The actual power of African STOs and how such power is combined in the management of the organizations

It is not enough to define the objectives of the enterprise and the volume of resources required to attain such objectives. The provision of appropriate human, financial and material resources does not guarantee the proper operation of an enterprise or its ability to make profits; the actual decision-making power and the independence of managers which is the consequence of such power are crucial questions in the management of public enterprises and of STOs in particular. They raise the problem of relations between the State and the public enterprise and the problem of STO decision-making centres.

1. State control

When they are established, most African STOs are considered rather as outgrowths of State departments and of the Ministry of Trade in particular. Therefore, in the eyes of the supervisory minister and of his staff, the enterprise is a sort of "operational department" of the cabinet whose role is to conduct commercial operations. This explains why in many cases the directors of African STOs are very often former members of the central State department specifically seconded to act as directors of STOs. In most African countries, a sort of monitoring structure playing the role of a management unit is quickly created within the supervisory ministry. This unit follows almost daily the activities of STOs and submits for the minister's approval decisions relating not only to the general policy of STOs but often also to their commerical management. The direct hierarchical relations between the management of the STO and the management unit the behaviour of the seconded director favour such a situation. Most directors of African STOs do not in fact direct their enterprises. In order to keep their job, they prefer to follow the orders of the supervisory ministers. It is therefore not surprising that the STOs of several African countries operate in a very bureaucratic style and are unable to fulfill any of the business objectives they are assigned. The management of a business requires rapid decision-making, a keen sense of commercial risk and sometimes total discretion which are in contradiction with the submission of draft decisions to a minister for his approval or even the direct negotiation of contracts by the same minister. If STOs are to be managed like real businesses, their directors must be given a free hand in decision-making. It is an illusion to think that public enterprises can be given complete autonomy just as it is an illusion to believe that the total dependence of STO directors is compatible with proper business management. Once the broad policies have been defined, management decisions should be left to the managers who should be judged on their performance.

2. Decision-making centres within STOs

We have seen that in their relations with the State, some STOs suffer from the fact that they are directed from outside. Splits in the decision-making power within STOs related to the manner of recruitment of the managerial staff is also noted. In some African countries, divisions within the ruling party are reflected in the public enterprises and struggles among factions can bring the activities of STOs to a standstill. Some factions mobilize trade unions against the management others ask the managerial staff to disregard the authority of the Director General. This situation is, of course incompatible with the management of a business.

3. A break from bureaucratic and political interference: "contrat plans"

"Contrat plans" are not an African invention. They were introduced into some African countries including Senegal by foreign experts who drew their inspiration from the relationships between the State and STOs in France over the past 20 years. The terms "contrat-programme", "contrat entreprises" and "contrat plans" in fact mean the same thing. The State introduced this system of public enterprise control in an attempt to clarify the objectives of STOs and to encourage such enterprises to be autonomous in their management.

Under "contrat plans", State control involves only the appointment of STO directors and the inspection of STO management after the structures have been established. The State and public enterprise become partners linked by a mutually agreed management contract. The contract defines the strategy to be followed by the STO in the light of the objectives of the State and indicates explicitly (quantified management indicators) the management objectives. Once the contract has been signed by the supervisory ministry and the directors of the STO, management decisions are no longer subject to prior State authorization so long as they do not jeopardize the strategy laid down in the contract. The State is represented on the governing board just as are the other contracting parties (local authorities, managerial staff of the enterprise, trade unions, etc.) and its representatives are there to express their own opinion on the running of the enterprise and not to impose orders received from the supervisory ministry (they do not have casting votes).

The "contract plan" is also a useful means of evaluating 8/ the public enterprises since it offers accurate reference data and explicitly establishes the responsibility of the directors of the enterprise.

The contract plan reestablishes the balance between State control and the autonomy of public enterprise.

The African States, that have adopted the system of "contrat plans" have accepted it as a means of extricating themselves from the financial burden laid on them by inefficient STOs. In the initial process of implementing "contrat plans" some progress has been noted in the performances of certain African public organizations particularly in Senegal where the establishment of a "contrat plan" with SOTTAC (Société de Transport du Cap Vert) has brought about a notable decrease in the management deficit of the enterprise. It would be interesting to see what the outcome of a strict implementation of a "contrat plan" on an African STO would be. So far, the supervisory ministries still interfere even in cases where it is stated that the principle of autonomous management defined by the "contrat" plan is respected. The lack of experience of States and managerial staff of African STOs is perhaps to blame for this.

C. Mobilization of resources and their use in managing African STOs

In the introduction to this study, it was stated that the debate on African state trading organizations is a debate on the mobilization and optimal use of resources available to African States. The debate has been further sharpened by the stark scarcity of such resources in African countries. Good management depends on the availability of resources and their efficient use. Let us see what the situation is like in this regard in African STOs.

8/ For the assessment criteria of a public enterprise see MSS El Namaki, An Approach to the Evaluation of the Performance of State Trading Organizations in Developing Countries, RVB Delf Holland.

1. Human resources

As far as human resources are concerned, African STOs have a problem of quantity and a problem of quality.

Quantity: When most of the African STOs were established, the authorities concerned did not undertake thorough planning of the human resources in line with the requirements of the businesses. Even when organizational charts were prepared considerable changes were soon made to them solely to include additional staff who were hired on the basis of criteria which had had absolutely no connection with the proper operation or profitability of the STO. Compared to similar businesses in the private sector, African State enterprises use too many staff (at least 30 per cent more). Staff costs are often one of a factors that affect the profitability of African STOs. This is the result of the declared or undeclared intention of the State to make the public enterprise a machinery for absorbing unemployment at all costs and a means of satisfying a political clientele in search of jobs. Instead of promoting new investments to control unemployment, the State overstaffs the few enterprises under its direct control. The African public enterprise does not recruit its personnel; such personnel is imposed on it from various sources such as political authorities, religious leaders and even the members of the families of the Directors of the enterprise. Such overstaffing decreases the productivity of the enterprise and helps to transform it into a complex bureaucracy.

Quality. Earlier on, it was stated that the managerial staff of African STOs is very often an outgrowth of ministerial cabinets. In some States, including Senegal, most Directors-General of Public Enterprises are either former technical advisers to the supervisory ministers, former state inspectors or former members of the Office of the President or former ministers; regardless of what skills such administrators might have in their field of competence, they neither have the training nor the experience required to manage a business. There is a difference between public administration and management of a business. Sometimes the priority given to the political criterion in selecting Directors makes public enterprises have more politicians than competent managerial staff and this does not allow the enterprise to function smoothly.

2. Financial and material resources

(a) Investments

We mentioned the importance of the ideological and political factor in the creation of African STOs. There is a certain spontaneity in the selection of investments. One is sometimes surprised to find that practically no serious feasibility studies were carried out prior to the creation of most of the African STOs or even when such studies were carried out they were used only as excuses because the conclusions of the studies were quickly sacrificed to the whims of the politicians who dtermined before hand the shape of the new enterprise even before implementation of the studies. The case of the Indian enterprise Hindustan Aluminium which was established on the assumption that a power source was available; which when it was built it was realized that the power source did

not exist. There is also the case of the mango juice production company which was established without making sure that the raw material was available 9/ such cases are not rare in Africa. Many were the investments that were made without any prior studies which turned out to be a waste of resources.

(b) Financial structures of African STOs

The initial investment of the State mainly goes into fixed STO assets Almost everywhere, the mistake was made of thinking of the commercial nature of STOs and neglecting the funding of at least part of the operating costs from equity capital. The directors of STOs were requested only to utilize supplier credits and/or bank credits to cover their operations. The costs of such credits in terms of interest and other charges may be so heavy that they eat into the profit margin of the enterprise. African STOs in particular, and even some private African businesses have problems of revolving funds which hamper their proper operation 10/in a hostile banking environment. This lack of revolving funds is often aggravated by the lack of competence in financial management within such enterprises which results in the fact that even when the business is provided with a revolving fund, the poor credit policy to clients and the haphazard management of stocks (over stocking) wipe out the financial autonomy of the business. There is also the general insufficiency of financial resources of African STOs in relationship to their assigned objectives. The social missions and objectives are rarely considered when the financial requirements are being assessed and social achievements are hardly compensated for. The excess staff that STOs are forced to maintain, as well as losses on sales prices when the State keeps such prices below the actual costs of the business, are not compensated for or if they are, the subsidies that are supposed to cover them are paid very late and at a rate which does not take into account the operating cycle of the STO.

3. Business management

(a) Domestic trade

In the classification of African STOs described above, mention was made of import distribution STOs which handle both international trade and local distribution (domestic trade). Some of these companies have their own network of shops managed by their own staff; such is the case of the Office National de Commérce du Congo - OFNACOM. Other STOs such as SONADIS in Senegal approach domestic distribution indirectly by authorizing local distributors who pay them

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9/ Reported by P. Fernandes in Public Enterprises and the Bottomline, article published in Financial Profitability and Losses in Public Enterprises of Developing Countries, edited by Zia U. Ahmed, ICPE.

10/ See M. Tine, 'Mémoire Sur le fond de roulement des entreprises Sénégalaises.' Universite de Dakar, ENSUT.

a deposit to operate under their name. In some cases, the local distributors are independent and do not use the name of the STO.

Under the direct approach, the STO is solely responsible for the whole distribution network and its decentralization in the rural areas. Some distribution units are often established under this approach in defiance of any rationality or notion of profitability.

In the case of the network of licensed distributors (the indirect approach), the image and guarantee of the STO are maintained and the STO participates in promoting a class of local traders which it trains in the rudiments of business management and to which it provides management assistance through a body of trade inspectors. The margin of manoeuvre of this class of traders is, however, limited in that their prices and the range of products that they distribute are determined by the STO that authorizes them to trade. On the other hand, the STO has no control whatsoever on the independent traders that it promotes. They set up shop where they wish and sell as much as they want and are subject to the general regulations of the country. The STO's assistance to them is limited to ensuring that they have regular supplies and supplier credits (GNTC played a similar role in Ghana).

(b) Import management

(i) Justification and conditions

For nearly 20 years, trade promotion policies and programmes in Africa concentrated mainly on exports. Awareness of the importance of management and import control is recent. It is probably the recent foreign exchange crisis which has brought about such awareness. African States have understood that management of foreign exchange resources makes it possible to regulate both the inflow and outflow of such resources. Care should be taken to ensure that the foreign exchange earned through exports should not be wasted on uncontrolled and/or over-valued imports. African States have two options for streamlining imports: "administrative management" which entails the establishment of import regulations and leaves operations to independent traders or "direct" import management by the State operator, therefore, through State corporations created with that end in view. Experience has demonstrated that import regulation through taxes, tariff and monetary arrangements (import deposits, variable exchange rates) and the issue of licenses and prohibition has only a relative impact on the management of imports and the channelling of imports towards development objectives. All these regulations are easily avoided through the corruption of the civil servants responsible for implementing them. Direct control by the STOs, therefore, seems to be the safest option. Even in the States that have importing STOs, both types of control exist side by side because of the mixed nature of the economy but direct control is predominant in some African countries such as Ethiopia, Angola, Tanzania, Zambia, Algeria and Egypt. African States also prefer "direct" management in order to ensure that there is a regular supply of essential commodities and to keep price fluctuations down to limits that are acceptable to consumers. The States also want to ensure that their commitments under bilateral agreements are met.

The intervention of STOs should also enable African States to make economies of scale, use imports as negotiating weapons to promote exports and to counterbalance importing transnational corporations.

Import planning and management by African STOs are carried out within an atmosphere of constraints to which African public enterprises are generally subjected:

(a) The control of markets by the State imposes rigid purchase procedures: above certain sums tendering of bids is obligatory and the management of the STO has no control whatsoever on the decision of the national contracts committee - this is the case in Senegal;

(b) In view of the foregoing, freely negotiated contracts play only a small role in the purchases of the STOs concerned and it is therefore not possible for them to sign long-term contracts with suppliers and in so doing, to obtain better terms;

(c) The impossibility of guaranteeing the independence of decisions regarding pruchases and of keeping negotiations secret. In some enterprises, decisions regarding purchases regardless of the size of the contract are made by a committee comprising managerial staff of the enterprise which is the case of ETIMEX in Ethiopia;

(d) The lack of information on possible sources of supply, on prices and trade practices;

(e) The shortage of experienced trade officers;

(f) The foreign exchange crisis and cumbersome procedures for obtaining import licenses and paying suppliers.

In most African countries, macro-economic planning is not descriptive enough with regard to sectors to offer clear references for the planning or programme officers of importing STOs. External trade planning figures often do not have solid empirical foundations and therefore STOs that are given monopolies are obliged to make risky estimates. The relations between STOs and central planning also raise serious problems when the points of view of the directors of the enterprise and those of central planners diverge and the latter have no idea whatsoever of the marketing approach that the STOs are trying to describe.

In African STOs proper, there is often no planning. Most African STOs do not have a planning department and handle demand on a daily basis and in an approximate manner and this is what causes the frequent shortages and enormous financial charges that result from an improper managment of orders and stocks. When the planning function is left to the trade department, which is often the case in Africa, it does not have proper tools to carry it out effectively (there is a lack of reliable information, lack of serious studies on demand, no - quantitative and qualitative assessment of supply etc.).

It is therefore under such difficult conditions that African STOs carry out (if they do so) the planning and management of imports. Let us now see how those African STOs that plan do so.

(ii) The planning process

Demand assessment

This is a crucial phase in the planning and management of imports. In most cases, such assessment is based on historical data and is done by extrapolation. No consultations are carried out on the figures obtained outside the enterprise and, in many African STOs this leads to an under-assessment and very rarely to an over-assessment of demand. In rare cases, such historical extrapolation is preceded and/or followed by systematic consultations with associations of users within the chambers of commerce, users of the parastatal sector and, as a last resort, the national planning department. Such consultation permits an assessment of quantities and yields qualitative data which could serve as a basis for breaking down the demand and identifying appropriate sources for supply.

Product strategies and purchase strategies

As far as product and purchase strategies are concerned, the hands of African STOs are tied by political considerations and commitments made by the State. The products to be purchased and the sources of supply are often determined beforehand and forced on the enterprise by various factors that Michelle Saint Marc calls the economic tropisms of marketing channels 11/. If solutions to the commercial policies of STOs such as advertising are possible to overcome the lack of adequate information (purchasers do not have a complete picture of the conditions of the market and the various possible sources of supply) and psychological rigidity (purchasing and consumption habits), institutional rigidity such as preferential trade agreements, tied aid, direct financial links and monetary zones is more insidious and in fact forces partners on African STOs. This obviously restricts their margin of manoeuvre. African STOs therefore do not operate in a competitive environment that is perfect or even relative which allows them to choose product strategies and import markets. In the short term, African STOs should identify products that are not subject to quotas in the import programme and try to initiate a process of diversifying their sources pending the lifting by the governments of the institutional constraints that tie the countries often to the former colonial powers or to multilateral co-operation agencies such as the European Economic Community.

At another level, the lack of information on market trends and the lack of serious analysis of available data do not enable African STOs to purchase at the appropriate time and at appropriate prices and to avoid shortages or over-stocking which are factors that have an impact on the profitability of the enterprise.

11/ Michelle Saint Marc, 'Commérce Extérieur de developpement, SEDES pages 175-195".

(iii) Physical management of purchases

This is the most worrying aspect in the process of acquiring and managing imports. The losses suffered by African STOs in this area often cancel out all their efforts elsewhere to streamline managmenet. High forwarding costs (transport, transit etc.), and the excessively high financial expenditure incurred as a result of the poor physical management of purchases have a great deal to do with the poor performances of importing African STOs. The causes of such poor performances are poor planning of purchases, transport, storage and distribution. Even when the state lays down standards in this area, there are problems in their implementation because the agents of the supply departments of the public enterprises lack the appropriate skills.

Physical management begins from the demand assessment phase; the quantitative aspect of this assessment has already been mentioned. The qualitative aspect concerns mainly the definition of quality standards to reduce the range of articles to be purchased and to ensure that they meet the requirements of consumers. It is of course the responsibility of the national standardization agency to define standards at the national level but in most African countries even if such an agency exists, it is inactive and has not been able to develop enough standards to cover the products imported by the STOs. The Ethiopian Institute of Standardization, which is one of the best structured and most active in Africa, has prepared standards for only a limited range of products imported by ETIMEX and the other Ethiopian STOs. The purchasers of African STOs are therefore often left to themselves in this area and their limited knowledge of some products does not help them. Very few STOs in Africa have made the effort to remedy this situation by preparing purchasing manual on procedures and products. The problem of standards is wider than the products themselves and concerns other aspects such as processing and packaging which in turn are affected by the quality of handling and transport. The use of the standards of the International organization for Standardization, would be a short-term solution but it should not be forgotten that such standards were often defined in contexts that are different from those of African countries. It is, therefore, hoped that the Nairobi-based African Regional Standardization Organization (ARSO) will be able to help in speeding up efforts of African countries in this area at the national and regional levels.

Another aspect directly linked to quality standards and other specifications is checking to see that orders and physical deliveries by the supplier match. Such verification is carried out at two levels: before and after the orders, before loading and upon arrival at the port of reception. Most African STOs have no accurate knowledge of the real capacities of suppliers when they sign contracts with such suppliers. The exploratory missions of purchasing departments which would have enabled purchasers to familiarize themselves with exporting companies are often not considered by the management as a profitable investment but rather as useless trips. Such exploratory missions would have spared many African private and public enterprises considerable difficulties because they realized, when it was already too late, that they had signed contracts with shady middle-men or with small producers incapable of satisfying their demand. Many advances paid under such conditions have been lost.

As far as inspection prior to loading is concerned, the public services and STOs of most African countries rely on the monitoring corporation which thus has near-total monopoly even if it has often been realized that despite the certificates of conformity issued by the monitoring corporation some articles were in fact loaded without prior inspection and were not in conformity with the required standards of the importing African STOs. It is perhaps high time that the contracts signed with the monitoring corporation were reviewed and provision made for penalties. The ideal would be for African countries to set up joint inspection units by encouraging the creation of African bureaux of maritime and merchandize experts.

On the whole, African STOs do not have inspection units for incoming goods. Such inspection is often carried out by the trade departments which do not have staff really qualified to do so.

(iv) Transport and logistics

Foreign exporters always insure sales CAF. Comparative studies carried out by some African importing companies have proved that freight rates are too high and the freight rates obtained directly from shipping lines could be as high as 20 to 25 per cent. The fact that several African countries have their own shipping lines should encourage STOs to purchase FOB and to consolidate their freight to enable national shipping lines to help them to plan the transport of such freight. National shipping lines could either forward the goods themselves or negotiate preferential freight rates with other shippers or liner conferences. However, STOs need to have logistics and transport staff to co-ordinate matters with the national shippers and forwarding agenst in order to deliver the goods on time. This is often not the case. Some African STOs are victims of congested harbours in countries such as Nigeria and Ethiopia and pay considerable charges to the port authorities and banks. Although STOs are certainly not responsible for the inadequacy of port facilities it has an adverse impact on their operations. The State should therefore take appropriate measures for streamlining harbour traffic in favour of commercial operators making available the equipment required for such streamlining such as quays designed for handling containers and cranes.

The ultimate phase of physical management of imports covers the storage and management of stocks as well as the distribution of goods to consumers. In these areas, the distribution of functions varies from country to country. In countries such as the Congo, the importing STO (OFNACOM) has a bi-polar structure and imports and distributes through its own distribution network; in other countries such as Ethiopia, Zambia and Senegal, the importing STOs leave domestic distribution to STCs created for that purpose. This latter approach cuts down general management problems. In both cases, there are serious problems in the layout of storage warehouses, the arrangement of control documents and the physical inventory of goods. This results in enormous losses and makes it impossible to streamline the volume of stocks to avoid overstocking or shortages.

(c) Export management

It was pointed out earlier on that exporting African STOs are mainly agricultural produce or mineral marketing boards established to manage the exports of one or several agricultural products. Such boards often use tranditional channels that link African countries with established markets in the North. They administer sales and their capacity for innovation, research and planning of marketing has been blunted by routine procedures. With policies now turning towards the export of products with an added value such as finished or semi-finished products, the structures of such STOs have to be revised, revitalised so they can diversify their markets and adapted to the competitive environment of international trade.

(iv) Evaluation of the performance of African state trading organizations

Over the past few years, many are those who, given the world-wide economic crisis, hastily declared the public sector a failure. Behind this attitude and the defence of the private sector as the only viable prime mover of development is the upsurge of liberalism in the developed market economy countries. Such countries, helped by the experts of large international financing agencies, have tried and often succeded in forcing liberalism on many developing countries particularly African countries. A close look at their attitude and doctrine shows, however, that their target is not only African public enterprises but alm nearly all nascent indigenous enterprises which are, in fact, incapable of fighting against the transnational corporations in the perfect competitive environment advocated by the champions of neo-liberalism. If they are not careful, the entire economic fabric of a number of African countries might fall into the hands of transnational corporations and foreign interests; this would inevitably hinder development and lead to a colonial-style situation.

African public enterprises including STOs are certainly not a panacea for development but, for the reasons mentioned above, they are an indigenous means of controlling the national economy. Therefore, before initiating disengagement of the State from the trading sector of the economy it should be considered whether the disengagement of certain enterprises can be justified after an objective assessment of such enterprises has been made. Such evaluations were often not carried out or if they were carried out, they were invalidated by the irrelevant approach and criteria of the evaluators. The fate of a public enterprise is often decided from the losses indicated on its balance sheet and its financial profitability. The performances of STOs are often wrongly measured using the instruments and criteria of private enterprises. Evaluators of African STOs often forego that apart from the commercial objectives, such enterprises also have soi socio-political objectives and carry out social activities whose costs are often overlooked (offer of jobs beyond their actual hiring capacity to help to reduce unemployment, maintenance of consumer prices below actual cost prices in line with the social policies of governments and so on). STOs would incur fewer losses if such activities were financially remunerated at their real costs. Very often the losses of African public enterprises in fact correspond to such non-remunerative activities (state subsidies are often inadequate or are not paid in time by the Treasury).

A fresh look should therefore be taken at the assessment of STOs in line with an appropriate methodology and criteria. El Namaki has worked out a six-dimensional conceptual framework to define the criteria for evaluating public enterises 12/

(a) The performance of a public enterprise is a function of the quality of management and of the capability of the enterprises;

(b) Evaluation should apply to those factors falling within the span of control of management;

(c) Evaluation should relate to a specific time dimension (short, medium or long-term);

(d) A distinction should be clearly made between "enterprise" or business-oriented measures of evaluation and "policy" or non or quasi-business measures of evaluation;

(e) The profitability of STOs should be regarded and measured within the overall broad context of public enterprise profitability rather than the narrow context of private enterprise profitability;

(f) There are measurable criteria of performance and non-measurable criteria of performance. A system of evaluation should contain both quantitative and, possibly comparative as well as qualitative indicators.

The Summary table 13/ below sums up the six dimensions relatively well.

FOCUS	CRITERIA	
Organization	- Quality of management - Capability of the organization - System fit	
Role	Policy-oriented	Enterprise/business-oriented
Parameters	Policy role -Essential goods supply and flow -Pricing economic growth and industrialization -Trade control -International market positioning	Enterprise/business role -Overall marketing decision making -Product decisions -Distribution decisions including physical distribution decisions -Communication decisions(advertising promotional activities)
Time dimension	Medium and longer term	Flexible

This table has been borrowed from El Namaki, op.cit. For more details consult""An approach to the evaluation of the performance of State Trading Organizations in Developing Countries", Dr. M.S.S. El Namaki, RVE Delft, the Netherlands.

12/ EL Namaki, op.cit.

13/ If the liquidation of an enterprise could be justified purely on the basis of losses many enterprises (even private ones) would have disappeared from the scene. In "Financial Profitability and Losses in Public Enterprises", pp 63 ICPE 1982, Praxy Fernandes cites the cases of the American firms Lockhead and Chrysler whose loses have often been covered by subsidies from the United States Government which kept them on the market because they were economically strategic.

African STOs are key factors in the strategy to control national economies. Serious thought should be given to whether or not to keep them or wind them up. The evaluation reports that justified the liquidation of a number of African public enterprises are flawed by their irrelevance to the situation of public enterprises. They are partial reports which overlook the socio-economic and political role of the enterprise and which consider only the short-term activities and performances of STOs. One should also combat the opinions that indicate that anything public is synonymous with inefficiency and deficits. There are many profitable public enterprises in Africa. In Egypt, of the 370 public sector enterprises that cover 40 per cent of the gross national product (GNP), 335 make profits; in Tunisia most of the 250 public and para-statal enterprises, except the industrial enterprises, also make profits. In Somalia and Ethiopia the STOs are profitable. 14/

III. African state trading organizations and international co-operation

African public enterprises are above all tools for controlling and developing the national economy. The role that most of them play in the external trade of their countries puts them in the heart of international economic relations and makes them key partners in the efforts to promote subregional, regional and international co-operation.

A. African state trading organizations and North-South economic relations

One of the objectives of STOs in Africa is to improve and help to balance North-South trade. To attain that objective, the activities of STOs should strive to diversify sources of supply and export markets. STOs should also replace foreign trading companies and transnational corporations whose vertically integrated distribution chains help to build colonial types of trade relations. Apart from countries such as Ethiopia and Algeria where a near monopoly regarding external trade has been established, the break with the former system of trade has not occurred despite the existence of STOs. The STOs have made no notable progress in their efforts to diversify sources of supply. There is, of course, the influence of the economic tropisms of the distribution chains that have been mentioned earlier but it should be recognized that the lack of dynamism of STOs in carrying out market research and looking for markets and alternative sources has a great deal to do with it. In African countries with liberal policies, STOs have no protection or privileges which could help them to carry out their role vis-a-vis the foreign international trade companies and transnational corporations. Most of the markets in raw materials are still not controlled by raw materials exporting STOs. They have no control on the pricing of raw materials and in most cases they depend on middlemen or the transnational corporations which control the metropolitan marketing channels.

Openings in the socialist countries of Eastern Europe are still very few. Only the STOs of African countries with socialist policies have been able to establish relations with the public enterprises of the Eastern countries.

14/ See Financial Profitability and Losses in Public Enterprises of Developing Countries, ICPE, Lubljana 1982.

B. African STOs and economic co-operation among developing countries

1. Inter-regional co-operation

There is a considerable potential for trade and co-operation among the developing countries of Africa, Latin America and Asia whose STOs could be privileged channels. Co-operation could be effected either by setting up pressure groups (OPEC or CIPEX types of cartels) to defend the position of developing countries on the international raw materials markets and to strengthen their bargaining power with the rich countries or by exchanging products or setting up joint venture public enterprises.

There are already many agreements between African countries and Latin American and Asians countries, for instance Zambia and Brazil have an agreement on the mining and marketing of minerals, there is a joint Nigerian-Brazilian Commission to promote the transfer of technology and joint enterprises and a shipping company has been created by Brazil and Nigeria to facilitate their trade. Algeria has an agreement with the Brazilian firm Petrobras for mining, producing, transporting and marketing petroleum products. There is a joint Senegal-Brazil Commission to promote trade between the two countries. Credit lines have been opened in several African countries including Senegal by the Banco do Brasil to finance Brazilian exports. Africa imports from Latin America transport equipment, vehicles, spare parts, industrial tools, kitchen equipment, agricultural equipment, fungicides, electric generators and military hardware as well as iron rods. Latin America imports from Africa raw materials mainly crude oil, natural phosphates, copper, groundnut oil, groundnuts and fishery products.

As far as Asia is concerned, Indian STOs have shares in the capital of some African public enterprises including the Senegalese chemical industries 90 per cent of whose production of phosphoric acid was bought by India in 1985/86. African countries purchase from India capital goods, agricultural equipment, grains, rice, jute and jute bags, spices, toys, electronic equipment, textiles, steel and boats. China sells to Africa building materials, electrical equipment, food-stuffs, textiles, bicycles, shoes and miscellaneous hardware. South Korea has gained a foothold in the African vehicles market. Asian countries buy from Africa mainly raw materials including crude oil.

African STOs play a key role in all this trade and are often designated by governments to implement bilateral agreements signed with other developing countries However, although the volume of trade between Africa and other developing regions has undoubtedly increased, the relative share of such trade compared to total trade on the continent is still small.

STOs can also benefit form the experience of some Asian countries whose state enterprises are models. India could offer a lot to African STOs in the area of training personnel in the management techniques of State trading organizations.

At a time when all countries of the South are going through a serious financial crisis, the exploration of other forms of trade such as barter trade could help to expand South-South trade and STOs are the most appropriate structures for initiating such trade.

2. Co-operation between African STOs

The basis for the development strategy and collective autonomy reached by African countries is the development of co-operation and intra-regional trade. The relative share of intra-African trade has, however, been declining steadily since 1965. It dropped from 7.5 percent to 4 per cent in 1978 and it is currently less than 4 per cent according to recent estimates 15/ The conference of African Ministers of Trade held in Brazzaville in October 1985 requested African countries to take the appropriate decisions to increase the relative share of intra-regional trade to 10 per cent by 1990. In view of the voluntary nature of this recommendation, governments should adopt and implement deliberately planned policies that mere import and export controls cannot enforce. It is therefore through STOs that a considerable proton of the objectives of increasing trade among African States can be attained. In 1979, the African Regional Meeting on Economic Co-operation among developing countries 16/ had stressed the important role that STOs played in developing intra-African trade The meeting had particularly recommended inter-alia, the holding of a regional symposium of African STOs to set up a mechanism for co-ordination and co-operation among STOs. The meeting had also requested STOs to take appropriate measures to:

(a) Sign long-term contracts among themselves;

(b) Grant each other preferential and priority treatment;

(c) Gradually eliminate dealers and other middlemen in trade with each other as much as possible;

(d) Exchange information and experience and strengthen their co-operation.

The current situation

It has to be admitted that little has been done to implement such recommendations. Intra-regional trade is stagnating and regressing and trade among African STOs has not been developed despite the fact that there is a great potential for such trade. There has, however, been some minor progress at the bilateral level. The summary table in the annex shows that STOs in Mali, Niger, Senegal, the Congo, Chad, Kenya have imported and exported foodstuffs and manufactured goods from and to Algeria, Libya, Cote d'Ivore, Nigeria, Morocco and Cameroon 17/

15/ See E/ECA/TRADE/24/Rev.1 Intra-African Trade: Current flows and prospects.

16/ Report of the African Regional Meeting responsible for preparing inter-regional meeting of the Group of 77 on Economic Co-operation among Developing Countries E/CN.14/PP.1/118.

17/ Table taken from documents TD/B/C.7/13/Add.1 and TD/BC.7/18 Add. 2 which are studies carried out by UNCTAD on the STOS of those countries.

Moreover, Zambia and the United Republic of Tanzania use their STOs to implement trade agreements with each other particularly barter agreements and barter trade. Egypt and Ethiopia use their STOs, NISR Company and ETIMEX to implement bilateral agreements with each other. The greatest efforts have been made by the Egyptian STO El Nasr which has developed a veritable network of direct representation in about 15 African countries. It remains however true that African STOs have not been able to break the vertical marketing channels that tie Africa to the former colonial powers of Europe, they buy from and sell to the developed countries and do not make any genuine efforts to diversify and find other markets. This situation has been partly forced on them by the profile of demand and supply of African countries characterized by a lack of complementarity and by the economic tropisms mentioned above, however, there is a potential for trade in foodstuffs, live animals, meat and meat products, milk and diary products, cereals and derived products, manufactured goods such as petro-chemicals, chemicals and pharmaceuticals, wood and furniture, fertilizers, aluminium products, steel products, paper and wood pulp, leather products, farming implements, miscellaneous hardware for which the region is a net demander while African industries in these areas are faced with the protectionism of developed countries 18/.

The absence of horizontal distribution networks among African countries is a major obstacle to the development of trade. African STOs, some of which have been in existence for 25 years, have not developed any such networks nor have they made any joint investments or signed piggy back agreements (they have not given each other-even on a consignment basis-the distribution rights of products on their respective territories) likely to facilitate their trade.

Prospects

There is definitely a potential for developing intra-regional trade in Africa 19/. Such trade could boom with the establishment of new types of distribution chains. Such horizontal distribution chains among African countries will be supplemented by new vertical channels with non-traditional markets of Africa to lessen the dependence of Africa on its traditional partners. Co-operation between African STOs should be effective in the following areas:

(a) Strengthening their bargaining power vis-a-vis foreign exporters and importers. This objectives could be attained through the signing of agreements to undertake the joint import of specific products. The consolidation of the demand of two or more African countries through their STOs would give them economies of scale and some bargaining power with the exporters of certain products and the shipping lines.

(b) Strengthening the supply capacity of exporting African STOs by establishing joint export mechanisms to meet demand and guarantee the flow of business thus created.

18/ See E/ECA/TRADE/24/Rev.1 Intra-African Trade Current Flows and Prospects op.cit.

19/ See in the Annex the summary table on prospects of co-operation among some African STOs. See also E/ECA/TRADE.24/Rev.1.

(c) Exchanging information on prices and other terms of purchase to permit better terms of purchase and to build a bargaining front vis-a-vis foreign suppliers.

(d) Signing mutual distribution agreements involving firm commitments for the import and distribution of specific quantities of merchandise over specified periods. Such imports could be effected under barter trade operations, consignations or operations through existing subregional clearing houses where immediate payments in foreign currency are difficult to make.

(e) The establishment of import-export interest groups structures as multinational marketing enterprises based on a network of participating STOs to promote intra-African trade. Such service enterprises could also serve as frameworks for joint import and export operations. Feasibility studies should be carried out to establish such enterprises.

General conclusions

The intervention of the State in the business sector in Africa and the establishment of State Trading Organizations are historical necessities. African STOs are a means of making up for the lack of an indigenous accumulation of capital and ensuring control over the economy. They play an important role in the agricultural sector where they market major export commodities of many African countries. They import in some countries a considerable portion of consumer goods and meet the State's requirements in equipment. In view of the strategic importance of STOs in the economies of African countries and in protecting national sovereignty, the current crisis affecting STOs and the criterion of financial profitability should be cautiously analyzed. STOs should be protected from the current neo-liberal enterprise of liquidation which might hand over the economies of African countries to trans-national corporations. Their objectives should be better redefined and their structures improved to bring about genuine autonomy in management from the supervisory ministries. The efficiency of STOs as machineries for managing the trade of African countries depends on whether adequate resources are made available to them.

African STOs should strive to create new types of marketing channels and active forms of co-operation liable to develop intra-regional trade and co-operation with the developing countries of Asia and Latin America. Co-operation among African STOs might help to strengthen the bargaining power of African countries and help to develop intra-African trade which is crucial to economic integration and the development of Africa.

Table A Importing STOs 1/

Country and STO	Products	% and of value of imports	Origin
Mali			
1. SOMIEX	Sugar, flour, milk, salt, spare parts, artificial plastics, green tea, jute bags, children's toys, wheat flour	5 per cent of the country's imports 5 per cent in 1976 and 7.2 per cent in 1977 i.e. US$ 7.6 and 11.2 million respectively	CEAO, EEC, USSR Algeria, Libya
2. OPAM	Rice, millet, sorghum, maize	n.a.	n.a.
Niger			
1. COPRO NIGER	Sugar, salt, milk, tobacco, concentrated, flour, cigarettes, cotton blankets, fabrics with less than 80 per cent cotton, jute bags	US$ million annually	Senegal, Côte d'Ivoire, Burkina Faso, Benin, Nigeria EEC, China
2. OPVN	Millet, sorghum, rice, maize	In 1976/77, it imported 54.5 per cent of millet and 66.7 per cent of sorghum	n.a.
Senegal			
1. ONCAD	Millet, rice	In 1973/74 it accounted for 15 per cent of national imports or US$70 million	Mali, Thailand, Pakistan, Burma, Argentina, Uruguay, China, USSR and Brazil
The Congo			
1. OFFICOM	Rice, smoked fish, sugar, tomato, concentrated drinks, beer, sweets and cakes, hardware, clothing	n.a.	China, Algeria, Morocco, Mauritania, Senegal, Zaire, Cameroon
2. ONIVEC	Meat	n.a.	Chad, Gabon
Chad			
1. SONACOT	All semi-manufactured and manufactured consumer goods	+ US$ 10 million per year	China

Country and STC	Products	% and or value of import	Origin
Tanzania			
1. EIT	Agricultural and industrial products, building materials and electrical products, household accessories and bicycles, food, pharmaceuticals, household appliances	45 per cent of Tanzanian imports	n.a.
2. ESC	Steel	n.a.	n.a.
3. NDC	Raw material, machinery and spare parts	n.a.	n.a.
Zambia			
1. NECC	Copper wire, plastic containers, towels, matches, liqueurs, coffee, cocoa powder, tea, soap, oil, cotton, groundnut oil, olive oil, soap, aubergines, meat preparations, fish preparations, textiles	33 per cent of Zambian imports	n.a.
Kenya			
KMTC	Sugar, salt, rice, soap, shampoo medicine, barrels, treasure, cement, shoes, insecticides, processed, sheet etc.	10 per cent of Kenyan imports	Japan, U[illegible] and
Nigeria			
NESC	Sugar *	Small fraction of Nigerian imports the bulk of which is in the hands of the private sector	Europe *
	Rice **		Thailand **
	Tomato puree ***		Italy ***
	Corned beef +		Brazil +
	Sardines +		Yugoslavia ++
	Salt ++		Senegal, Brazil and Yugoslavia +++
	Cement ---		Poland and USSR o-o
	Tinned milk ---		Poland, Federal Rep. of Germany, USA o-o-o
	Fish o		Norway and Iceland o
Ghana			
1. G.S.C.	Textiles, [illegible], office equipment	The GSC, GNTC & GNPA account for 55 per cent of Ghana's reports	African countries and socialist countries of Eastern Europe with which Ghana has signed bilateral trade & payments agreements

Country and STC	Products	% and or value of imports	Origin
Ghana			
2. GNTC	Machines, equipment, electrical equipment, textiles, pharmaceuticals, soft drinks, trucks and spare parts	n.a.	n.a.
3. GMPA	Wheat, rice, sugar, meat, fertilisers, raw cotton, paper	n.a.	n.a.

1/ Source: This table is drawn from documents TD/B/C.7/18/Add.1, TD/B/C.7/18/Add.2 and TD/B/C.7/18.

Table B Exporting STC 1/

Country and STC	Products	% and or value of imports	Origin
Mali			
1. SOMIEX	Cotton, groundnuts	In 1976 US$61.2 million or two-thirds of Mali's exports	EEC, Japan, China, Portugal, USSR and Switzerland
2. OPAM	Grains (rice, millet, sorghum, maize) fruits and vegetables	5.63 per cent of Malian exports in 1976	CEAO countries and EEC
3. SEPON	Groundnut oil and shea butter	n.a.	n.a.
4. SOCOMA	Tomato concentrate and fruit juices	n.a.	n.a.
5. DIOLIBA	Cigarettes and matches	n.a.	n.a.
6. SOMBEPEC	Meat, live cattle and cattle by-products, treated hides and skins	n.a.	n.a.

Country and STO	Products	$ and or value of imports	Origin
Niger			
1. COPRO NIGER	Gum arabic	n.a.	n.a.
2. SONARA	Groundnuts, niébé	n.a.	Nigeria
3. SNCP	Skins and hides	n.a.	EEC, Ghana, Algeria
4. SONERAN	Meat	n.a.	EEC NB: Exports to Togo, Benin, Libya and Côte d'Ivoire have been stopped as result of competition from Argentina (lowly priced frozen meat)
Senegal			
1. SONACOS	Crude and refined groundnut oil	In 1976 it accounted for 41.67 per cent of Senegal's total exports or $US173.8 million	CEAO
2. SERAS	Meat, live cattle, hides & skins	In 1977 its value of exports was $935,387	Mali, Mauritania, France, Italy
The Congo			
1. ONCPA	Coffee, cocoa, palm kernels	In 1976, 2.8 per cent of Congolese exports or $US5.6 million	EEC, China and Bulgaria
Chad			
1. SONACOT	Groundnuts, hibiscus oil cakes, sesame, gum	$US 2 million in 1974/1975	EEC
2. COTON-TCHAD	Cotton	In 1976, 61,199 tons 4.09 per cent of which went to Africa	Nigeria, Morocco, The Congo, Federal Rep. of Germany, Portugal Belgium, Italy, Switzerland, Japan, Hong Kong China

Country and STO	Products	% and or value of imports	Origin
3. SOTERA	Cattle products	n.a.	The Congo, Nigeria N.B: The Senegalese and Ivorian markets are being surveyed
Tanzania			
1. CAPEX	Castor seeds, coffee, palm kernels, bee wax, kapok, pyrethrum, vegetables, sisal, sesame and ropes, cocoa	n.a.	n.a.
2. MMC	Preserved and bottled food	n.a.	n.a.

1/ This table is drawn from documents TD/B/C.7/18 Add.1; TD/B/C.7/18/Add.2 and TD/B/C.7/18.

Table C: Prospects for trade between STOs 1/

Supplier	Country	Products concerned	Client STOs	Country	Value of the transaction if it is between African countries
SOMIEX	Mali	Cotton, groundnuts	NIEC	Zambia	In 1976, $US61.2 million
OPAM	Mali	Rice, millet, sorghum, fruits and vegetables	ONCAD NMSC	Senegal Nigeria	In 1976, $US 5.16 million
SEPOM	Mali	Groundnut oil and shea butter	BIT NIEC	Tanzania Zambia	n.a.
SOCOMA	Mali	Tomato concentrate fruit juices	COPRO-NIGER OPNACON BIT NMSC	Niger The Congo Tanzania Nigeria	n.a.
DIOLIBA	Mali	Cigarettes and matches	COPRO-NIGER SONACOT KNTC NIEC BIT	Niger Chad Kenya Zambia Tanzania	n.a.
SOMBEPEC	Mali	Meat, live cattle and cattle by-products, treated skins and hides	ONIVEC GNPA	The Congo Ghana	n.a.
COPRO-NIGER		Gum arabic	-	-	n.a.
SONAMA	Niger	Groundnuts, niébé	NIEC	Zambia	n.a.
SNCP	Niger	Hides and skins	-	-	n.a.
SONGRAN	Niger	Meat	ONIVEC NMSC GNPA	The Congo Nigeria Ghana	n.a.

Supplier	Country	Products concerned	Destination	Quantity
SONACOS	Senegal	Groundnut oil and other	EEC	25,000 tons
SIEALS	Senegal	Soap, fish meal, shea butter	EEC USA Japan Canada	
ONCPB	The Congo	Coffee, cocoa, palm kernels	EEC USA Japan	
S.N.C.O.T.	Chad	Groundnut oil, cake, soap, cotton, etc.		
SOTEXA	Chad	Cotton products	EEC USA Japan Canada	
G.P.E.X.	Tanzania	Leather goods, coffee, palm kernels, meat, hides, skins, vegetables, nuts, rubber, cocoa, copra	EEC/UK COMECON-countries	UK Russia
MMC	Tanzania	Processed mineral fuel	EEC COMECON E.F.T.A.	Nigeria Zambia Kenya